



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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19-26 City of Colorado Springs Sand Creek Police Substation Construction Monitoring

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Purpose

The purpose of this audit was to monitor construction of the Sand Creek Police Substation. The key objectives of the audit were to review and monitor project controls, including the budget, financing, schedules, and safety for effectiveness, efficiency, and internal controls.

Highlights

We conclude the Sand Creek Police Substation construction project was completed on time at an estimated cost of \$16,247,700, which was 1% below the overall project budget. The Colorado Springs Police Department (CSPD) project team was able to manage total project costs even though construction costs exceeded the contract amount by 8%. As of the end of fieldwork on September 30, 2019 the City was finalizing payment for retainage and the last few invoices.

This audit was requested by CSPD for additional independent project oversight. CSPD responded to auditor recommendations as identified during the audit, including hiring an external construction manager. Two issues and recommendations were identified for City management and Procurement in future construction contracts and projects. Discussion of the issues, recommendations, and management responses begins on page 2 of this report.

Background

The Sand Creek complex now occupies 8.69 acres of property and has doubled in size to 37,800 square feet. Two smaller auxiliary buildings house a car wash, a vehicle maintenance facility, and a fueling island for patrol cruisers and support vehicles.

We appreciate the cooperation of CSPD, Procurement, and project personnel during the course of this audit.

Management Response

Management was in agreement with our recommendations. Detailed responses are included on pages 2 and 3.

Sand Creek Police Station

| Category | Cost * |
|--------------------|--------------|
| Construction | \$13,007,742 |
| Design Services | \$992,623 |
| Equipment & Other | \$899,644 |
| Land Purchase | \$761,264 |
| Furniture | \$405,989 |
| Construction Admin | \$180,438 |
| Total | \$16,247,700 |

* Project cost estimate at completion as of 9/30/2019.

Recommendations

1. Develop a process to ensure sufficient capital project oversight.

Develop internal policies and procedures to assist project managers.

Consider an external construction manager if the project warrants that level of support.

2. Develop construction contracts that align with the complexity of the project.

Also ensure key contract terms are clear.

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Observation 1

For Sand Creek, project management responsibilities were assigned to CSPD staff as additional duties. An outside Construction Manager was hired after design completion, general contractor procurement was complete, and construction had started. CSPD experienced multiple adverse effects with the Sand Creek construction as a result.

- Design work was not completed timely and payments were made prior to achieving regulatory approvals for the design.
- The design needed substantial revisions, which impacted the Request for Proposal (RFP) for the general contractor.
- As a result of the design issues; significant change orders occurred, scope and construction costs increased.

The City does not currently have City-wide governance policies for major capital projects. In the City Auditor's 2015 Review and Monitor Capital Projects audit report, a lack of consistent City-wide project management was identified. Subsequently City management formed a Project Management Committee.

However following the departure of several key employees, the committee's work was never finished.

Recommendation

Early in a project, City management should develop a process to ensure sufficient capital project oversight. The process should evaluate whether additional skilled resources may be needed by departments that do not routinely complete major capital projects.

Consideration may be given to selecting an outside construction manager when the project warrants an expert or when City resources do not include sufficient expertise for a given project.

To help all project managers, the City should develop governing policies, procedures, and tools for project management and contract administration oversight.

Management Response

City Management: We concur with the OCA's recommendation of having additional policies, procedures and/or tools for project management and contract administration oversight. We recommend that for large, complex vertical construction projects, a general 'risk register' assessment is created to outline possible impacts to these projects. This risk register template will be created by a panel of project managers from various City divisions who may enter into projects related to new construction or complex renovations. It can be edited and adjusted to the specific project but it will be a required document in complex, vertical construction projects as part of the procurement purchase requisition. It is intended to educate project managers in the expected time commitments, including roles and responsibilities in delivering capital projects. In addition, this assessment will recommend construction management services in complex projects such as the Sand Creek Substation. It is anticipated that this work group will provide a draft risk register by June 2020, and then provide a final working document by the end of August 2020.

Colorado Springs Police Department: We have reviewed the report and agree with management's response.

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Observation 2

In the design and construction contracts for Sand Creek, certain provisions were not well defined or had conflicting terms. For example, the construction contract did not specify how change orders should be processed and what mark-ups would be allowable. Unclear contract terms can negatively impact contract administration and compliance.

Both design and construction contracts were fixed price. Fixed price type contracts are intended to help the owner budget their projects with less risk of cost overruns. However, when design is incomplete at the time of general contractor procurement, the risk of cost increases due to change orders increases. Fixed price contracts are an acceptable form, but may not be the best approach in some cases. To be effective, fixed price construction contracts require a complete design.

The type of contract should be based on a determination of project complexity and risk. Specific terms and the Statement of Work (SOW) should be written to ensure the contract is fair and the City receives the best overall value from their project.

Recommendation

Develop various construction and engineering/design contracts that best align with the size and complexity of the project.

Develop specific contract terms that clearly define key sections including change management, payment, and project deliverables.

Management Response

City Management: Procurement Services agrees with this recommendation. For future engineering and design contracts, the following items will be considered:

-contract types beyond firm fixed price will be evaluated that best align with the size and complexity of the project. For design contracts, we could ensure there is language to enforce payment terms. Procurement will outline the milestones in the contract.

For construction contracts, we can now utilize Fixed Unit Price contracts (or other appropriate contract types) with an agreed upon Guaranteed Maximum Price (GMP).

-Procurement will closely evaluate and implement tighter language in the appropriate clauses that effectively address change management, payment, and milestones/deliverables in large and complex design projects and in large construction projects. Changes to the architecture and engineering and construction contracts will be completed by end of 2nd quarter.

Colorado Springs Police Department: We have reviewed the report and agree with management's response.